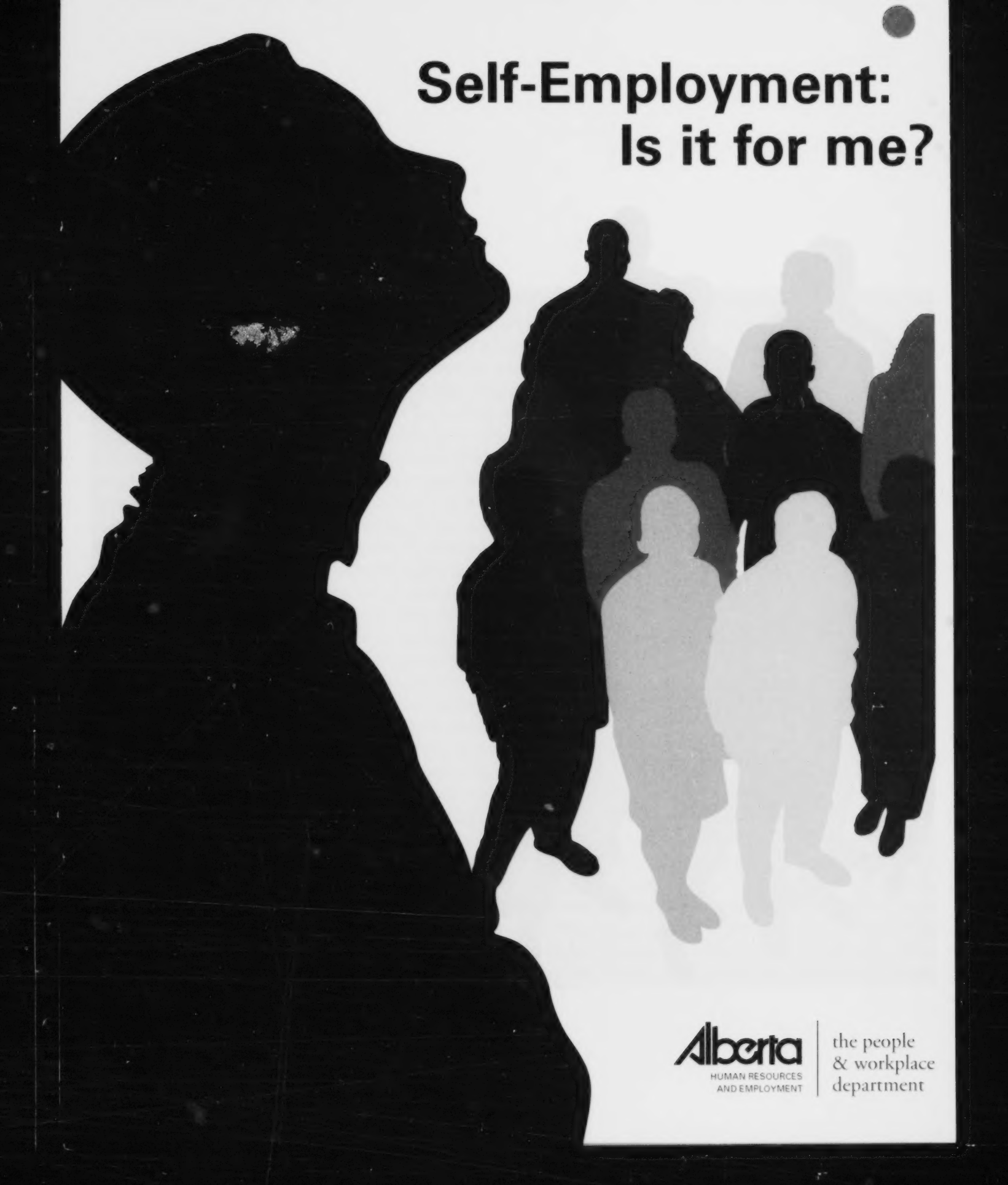
Self-Employment: Is it for me?



Alberta
HUMAN RESOURCES AND EMPLOYMENT

the people & workplace department

This book is written for the person considering self-employment. It will increase your learning and work exploration by helping you:

- understand how the changing workplace creates self-employment opportunities
- determine the advantages and disadvantages of self-employment according to your preferences
- learn about the kinds of self-employment options available
- assess the impact of self-employment in your life
- connect you with further information and resources.

This publication is available on-line through the Alberta Learning Information Service (ALIS) website—Alberta's leading on-line resource for career, learning and employment information. To access this and additional publications, visit **www.alis.gov.ab.ca/careershop**

For additional copies please contact:

Learning Resources Centre
12360–142 Street
Edmonton, Alberta, T5L 4X9
Internet www.alis.gov.ab.ca/careershop
Fax (780) 422-9750
Telephone (780) 427-5775
Catalogue item #332437

For copyright information contact:

Alberta Human Resources and Employment
People, Skills and Workplace Resources
Telephone (780) 422-1794 Fax (780) 422-5319
E-mail info@alis.gov.ab.ca

This information was accurate, to the best of our knowledge, at the time of printing. Labour market information is subject to change, and you are encouraged to confirm with additional sources of information.

ISBN 0-7732-1715-0

The Province of Alberta is working in partnership with the Government of Canada to provide employment support programs and services. These benefits and measures are funded, in whole or in part, by the Government of Canada from the Employment Insurance Account.

© 1997, 1998, 1999, 2002, 2004 Government of Alberta, Human Resources and Employment.

The material may be used, reproduced, stored and transmitted for non-commercial purposes. However, Crown copyright is to be acknowledged. It is not to be used, reproduced, stored, or transmitted for commercial purposes without written permission from the Government of Alberta, Human Resources and Employment. This book is not for resale unless licensed with the Government of Alberta, Human Resources and Employment.

01/97 - 15M
07/97 - 15M
04/98 - 25M
12/99 - 20M
09/00 - 25M
09/02 - 25M
06/04 - 35M

Self-Employment: Is it for me?

Table of Contents

I. So You Want To Be Your Own Boss? 2

Self-Employment: *Aaah, this is the life* or *Argh, is this living?* 3

What motivates entrepreneurs? 4

What motivates you? 5

II. Do You Have The Right Stuff? 6

Characteristics of successful entrepreneurs 6

Find your self-employment strengths 8

III. The Idea Factory 11

Self-Employment: What are your options? 11

Three ways to get into business 12

Buying a franchise 12

Buying an existing business 13

Starting from scratch 13

Where did they ever get that idea? 14

IV. Getting Started 17

Doing a market analysis 17

Financial considerations 17

Licenses and permits 19

Writing a business plan 19

Writing proposals 20

Next steps 22

V. Resources 24

Government, private sector and community resources 24

Publications 27

I. So You Want to Be Your Own Boss?

You're not alone. More and more people are considering self-employment as a work option. In fact, self-employed people are now creating more jobs in Canada than companies in the private sector. Many of them left steady jobs to strike out on their own. What's more, the majority are finding they are happier working for themselves.

One major reason for this trend toward self-employment is the changing workplace. As governments and corporations downsize, secure, full-time employment is becoming a thing of the past. There's still plenty of work that needs doing, but it's being packaged in different ways. Instead of hiring employees, governments are privatizing and contracting out a wide array of services. Contracting out, or outsourcing, is also becoming a favoured way for companies in the private sector to do business.

If you can see opportunity in this situation, you're already ahead of the game. What's more, you probably have some entrepreneurial blood in your veins. Many people are starting businesses in order to bid on the increasing amount of work that is contracted out. In some cases they are bidding on the very work they used to perform as employees.

Of course, there are reasons other than economic ones to go into business for yourself. Maybe you've taken an early retirement and can't imagine a life of total leisure. More than one successful business has been started by retirees with get-up-and-go to spare. You may also be looking for a home-based business to supplement your pension benefits.

Perhaps you're at the front end of your working life and considering your options. Faced with a shrinking job market, you might well consider creating your own job. If so, you are likely to find plenty of encouragement. Governments at all levels are recognizing the importance of entrepreneurship in job creation. As a result, they are working with the business community to offer all sorts of programs to encourage young entrepreneurs, from Junior Achievement and Career and Technology Studies to "incubator" services that reduce overhead by pooling space, equipment and secretarial services.

Last, and most obvious of all, you might be one of those people who knew from your first lemonade stand you were going to be your own boss. As one successful young entrepreneur put it: "I like to run the show."

What does it mean to be an entrepreneur? As it is commonly used, the word entrepreneur refers to someone who organizes, manages and assumes the risk to start a business or enterprise that ultimately creates jobs for others. This type of entrepreneur usually invests a high level of time, energy and financial resources to succeed in business. At the other end of the scale are people who choose self-employment in order to get out of the "rat race" and are content to make just enough money from self-employed earnings to support themselves. Throughout most of this book, we use entrepreneur to ref_r to anyone who is self-employed no matter where they fall on this scale.

Just the stats

Many Canadians are choosing to be self-employed. Just look at the stats:

- Between 1993 and 2003, the number of self-employed Canadians rose by approximately 385,600, or 19 per cent.
- In Alberta, self-employed people represented 17.9 per cent of all employed people in 2003. Nationwide, self-employed people made up 15.3 per cent of the employment total during the same year.
- There were 308,100 self-employed people in Alberta in 2003.

Source: Statistics Canada Labour Force Survey (2003 Historical)

© Government of Alberta, Human Resources and Employment

Self-Employment: *Aaah, this is the life* or *Argh, is this living?*

Like any other career or lifestyle choice, self-employment has its bonuses and challenges. Here are some important factors to consider when deciding whether to go out on your own. Not all of them apply to all types of businesses. Not all of them are equally important to all potential entrepreneurs. Decide for yourself how important each one is to you.

Bonuses

- **Satisfaction of creating your own job.** Many self-employed people enjoy the sense of independence and accomplishment that comes from using their skills and experience to create their own work rather than depend on an employer for a job.
- **Opportunity to follow your heart.** Self-employment offers the chance to work at something that not only provides a paycheque but also appeals to your passion. As your own boss you have the freedom to determine where to invest your time and energy.
- **Variety.** No day is predictable. There are always new customers, clients and suppliers to meet, new problems to solve, and new projects to tackle.
- **Feeling of control.** Being self-employed gives you control over your schedule, working conditions, and how you do your work.
- **Opportunity to use your creativity.** Many entrepreneurs say they felt confined and their creativity thwarted in a corporate or government environment. Being your own boss lets you test your bright ideas and fulfill your passion for creativity.
- **More tax deductions.** Self-employed people are entitled to tax deductions on a wide range of things such as a car, home office, travel, professional development, and other items related to their business.
- **Flexible work hours.** If you want to spend time in your garden in summer or catch a child's performance at school, you may be able to juggle your schedule to do so. And if you make up for it on evenings and weekends, it will be by your own choice.
- **No dress code.** Every day can be "casual Friday" when you're calling the shots. Home-based business operators, in particular, can enjoy dressing for comfort on days without meetings with customers or clients.
- **Opportunity for a healthier lifestyle.** Working at a home-based business can pay health dividends. You may be able to adjust your work schedule to accommodate personal needs, such as scheduling an exercise program.

Challenges

- **Long hours.** Anyone who goes into business thinking it will be easy street compared to being an employee will not last long. Self-employed people often talk of 12 to 16-hour days as the norm. Clients and customers can be demanding, and customer service can make the difference between success and failure.
- **No benefits.** A downside of self-employment is the loss of benefits such as health and dental coverage, along with employment and disability insurance. If you are used to having a benefits package as part of your employment, you can generally count on paying about 15 per cent of your former salary to replace those benefits when you become self-employed.
- **Loss of structure.** Being your own boss can be unsettling if you're used to having an employer impose a certain structure on your work day. There's no "time clock" to punch, no set coffee breaks. It's up to you to create your own structure, based on what's needed to market yourself and your product or service and to get the work done.
- **Isolation.** As a self-employed person, you could miss the support of co-workers or the opportunity to socialize on breaks, especially if you work from home.
- **Paperwork.** When you run your own business, you're not only the president and marketing manager, but also the comptroller and bookkeeper. Of course, you can hire an accountant to help you set up your books and do your taxes. But you will still have to spend many hours doing the paperwork and record-keeping required.
- **Unpredictable income.** Until you get a new business off the ground and running smoothly, budgeting is vital. Even if you've done your

© Government of Alberta, Human Resources and Employment

homework and prepared a thoroughly researched business plan, your income won't be as predictable as a regular paycheque. Some new business owners take part-time or even full-time jobs during the first year or two to keep a steady income until the business takes off.

- **Constant pressure to keep sales up or work coming in.** Every day is a marketing day or a work search day for the self-employed. If you have employees, the pressure is even greater to bring in enough work to keep them busy and pay their salaries.
- **Potential for loss.** Starting any kind of business requires some financial investment at the outset. Even equipping a modest home office to perform a professional service such as accounting requires a minimum investment in such essentials as furniture, a computer, software, business telephone line, copier and fax machine. The capital required to start a restaurant or manufacturing operation can be substantial. Should your business fail, this investment may never be recovered.

What motivates entrepreneurs?

Most people who start businesses have worked as employees for other organizations first. Why would they give up their jobs to be self-employed? The following are some of the main reasons people give for starting their own enterprises:

- They feel they can do the job better than their boss.
- They seek the challenge of starting and nurturing a business from scratch.
- They seek variety and a sense of adventure.
- They want to make better use of their skills and knowledge.
- They want the freedom to work in their own way.
- They would get more of a sense of accomplishment from running a business.
- They prefer to reap all the profits from their work.
- They want to have more control over their career and their life.
- They want to recapture the feeling of working at something close to their heart.

Notice that money is not prominent on this list. For most successful business people, the prime motivation is personal fulfilment. Of course, money is important to them, but only as a means to do more with their businesses and their lives, not simply to acquire wealth and prestige.

In fact, anyone who goes into business for the money alone may be in for a rude awakening. Are you prepared to work longer hours and receive less pay than you did as an employee? That's the kind of dedication it takes to get a new business up and running. But the rewards in terms of work satisfaction can be great. In a series of surveys conducted over the last two decades, Human Resources Development Canada show self-employed college and university graduates in Canada have higher levels of job satisfaction than workers in wage or salary jobs.

© Government of Alberta, Human Resources and Employment

What motivates you?

It's important that you examine your motives at the outset before you commit your time, energy and resources to a new business venture.

Ask yourself:

1. What is my goal in starting a business (e.g. profit, freedom, opportunity to exercise my creativity)?

2. What are my life goals? Visualize your ideal life 10 years from now and describe it, in as much detail as you can, with respect to:

Work

Family

Relationships

Leisure

Home

Other

3. Does running a business fit in with my life goals?

You may not yet have enough information to answer question 3. You may want to return to it after completing the self-assessment exercises in Chapter II.

Why did they do it?

What motivates people to start their own business? Here are the reasons given by some Alberta entrepreneurs for striking out on their own:

"Being an independent, creative person, I think I always knew that I would not be happy unless I owned my own business."

"When you work for someone else, you get used to your life revolving around that paycheque. When you work for yourself you can make your own life."

"I could see the firms I was working for doing better off my work than I was, so I decided to start my own business and keep the profits for myself."

"When my job disappeared I decided to look at other work options."

© Government of Alberta, Human Resources and Employment

II. Do You Have the Right Stuff?

Are entrepreneurs made or born? Well, a little of both. Running your own business requires a host of skills, attitudes and values, some of which you arrive at through your own mix of personality and intelligence and some of which you can acquire through training or education.

Is there such a thing as an entrepreneurial personality? While most agree that entrepreneurial behaviours can be learned, researchers who study successful entrepreneurs have singled out a number of characteristics that seem to define such people.

Characteristics of successful entrepreneurs

Innovative. Entrepreneurs see solutions where other people see only problems. They have a special knack for spotting trends and seeing the opportunities in them. They can also conceive of products and services or ways of delivering them that don't yet exist.

Educated. Entrepreneurs are open to learning from a variety of sources to improve their chances of business success. More entrepreneurs than ever before have a post-secondary education.

Competitive. Because many entrepreneurs are driven to achieve, they may see business as a game of winning or losing. For them, money is not the primary goal but only a means of measuring success.

Willing to take calculated risks. Contrary to the popular stereotype, entrepreneurs are not gamblers. However, they are willing to take moderate risks in situations where they have done their homework, have sufficient information and have some control over the outcome.

Proactive. Most entrepreneurs are self-starters. They choose their projects based on their own interests and are not dependent upon what others think of them. They know what they want to accomplish and do what is necessary to achieve it.

Self-confident. Successful entrepreneurs believe in themselves and in their ability to achieve their goals. They are optimistic and enthusiastic about ventures they undertake and are able to motivate others with their enthusiasm.

Willing to work long hours. Entrepreneurs don't punch a mental time clock when it comes to work. They devote long, uncounted hours to their business.

Healthy. Entrepreneurs may not be physically healthier than everyone else, but they do take less "sick" time off work. An entrepreneur simply refuses to be sick and will work through minor ailments like headaches or colds.

How can you identify an entrepreneur?

Below is a list of characteristics that are often found in successful entrepreneurs. Of course, not all of them are found in any one person. How many apply to you?

a) Put a check mark beside each trait that describes you most of the time.

Are you:

❑ Ambitious	❑ Energetic	❑ Honest	❑ Open-minded	❑ Persistent	❑ Self-motivated
❑ Assertive	❑ Flexible	❑ Independent	❑ Optimistic	❑ Persuasive	❑ Visionary
❑ Creative	❑ Goal-oriented	❑ Innovative	❑ Organized	❑ Resourceful	
❑ Decisive	❑ Hard-working	❑ Intelligent	❑ Patient	❑ Responsible	
❑ Diligent	❑ Healthy	❑ Objective	❑ Perceptive	❑ Self-confident	

© Government of Alberta, Human Resources and Employment

Do you:

❑ Enjoy solving problems ❑ Seek challenges ❑ Seek information ❑ Value achievement

Can you:

❑ Communicate well
❑ Get along with most people
❑ Learn from others
❑ Maintain a long-term perspective
❑ Make a commitment
❑ Motivate others
❑ Plan ahead
❑ Recognize opportunity and seize it
❑ Sell products or ideas
❑ Take moderate risks
❑ Think positively

b) Select five of the traits you checked under a) and, on a separate sheet of paper, list a specific situation, not necessarily work-related, in which you demonstrated each trait.

c) To give yourself a picture of how the traits listed under a) contribute to business success, think of a successful entrepreneur whom you know well and describe how that person demonstrates five of these attitudes, values and/or behaviours.

What's your E.Q. (Entrepreneurial Quotient)?

Studies show that successful entrepreneurs share several common traits, background experiences, motivations, values and beliefs. How about you? While this quiz can't predict how well you might do in your own business, it will give you some idea how you compare with people who have been successful at running their own enterprises.

1. The entrepreneurial spirit often shows up at an early age. Did you start a business such as a lemonade stand or run for office at school during your childhood?
   ❑ Yes ❑ No

2. Entrepreneurs have a strong determination to do things their own way, a trait that can be traced back to stubbornness as a child. Were you a stubborn child?
   ❑ Yes ❑ No

3. Some studies of entrepreneurs show that as children they spent a lot of time alone by choice. Did you prefer to be alone when you were a child?
   ❑ Yes ❑ No

4. An unwillingness to take any risks could be a drawback for people planning to start their own business. Were you cautious as a child?
   ❑ Yes ❑ No

5. Successful entrepreneurs in general were not top academic achievers in school. Were you at or near the top of your class as a student?
   ❑ Yes ❑ No

6. Entrepreneurs tended not to enjoy participating in group activities such as team sports and clubs in school. Were you a joiner?
   ❑ Yes ❑ No

7. Many entrepreneurs say they put their long-term and short-term goals in writing. Do you set goals and put them in writing?
   ❑ Yes ❑ No

8. Entrepreneurs are not nine-to-five workers. Are you willing to work around the clock, with little or no sleep, or as long as it takes to get a job done?
   ❑ Yes ❑ No

9. Entrepreneurs generally enjoy their work so much they always have projects underway or new ones in the works. When you complete a project, do you immediately jump into another?
   ❑ Yes ❑ No

10. Successful entrepreneurs are willing to commit their savings to finance a business. Would you use your savings to start a business?
    ❑ Yes ❑ No

11. Many entrepreneurs take out bank loans or borrow money from others to finance their business. Would you borrow money to start your business?
    ❑ Yes ❑ No

12. Many successful entrepreneurs have failed at least once but bounced back to start another business. If your business should fail, would you give up and immediately start looking for a job with a regular paycheque?
    ❑ Yes ❑ No

© Government of Alberta, Human Resources and Employment

13. Entrepreneurs usually have enough faith in themselves to follow their own paths and don't worry about what others think. Do other people's opinions matter a lot to you?
❑ Yes ❑ No

14. Entrepreneurial personalities seem to be easily bored. Are you easily bored?
❑ Yes ❑ No

15. Optimism can be a great motivator, driving an entrepreneur to pursue new goals. Are you generally an optimist?
❑ Yes ❑ No

Answers

Remember, there are no "right" answers to the above questions. The following are the answers that best illustrate the background and traits generally found in successful entrepreneurs:

Yes: Questions 1, 2, 3, 7, 8, 9, 10, 11, 14, 15

No: Questions 4, 5, 6, 12, 13

How did you do? If your behavior, attitudes and beliefs match those of a typical entrepreneur in at least half of the items above, then you probably have a head start toward success in being your own boss.

Find your self-employment strengths

As you can see, to succeed as your own boss you will require a wide range of experience, skills, attitudes, values and behaviours. Do you have enough of them to make a go of it? The following multiple choice quiz will help you determine where your strengths are in a number of areas that are critical to entrepreneurial success. For each item, put a check next to the sentence that best describes you.

1. Business skills and experience

While it's helpful to take business-related courses, there's no substitute for real-life experience. You're ahead of the game if you have friends or relatives who are business people or if you have first-hand experience in a small business yourself. It's also valuable to have a network of skilled advisors and others with business experience who can help you with problems as they arise.

❑ a) I have no first-hand experience with a small business and nobody close to me has ever run a business.

❑ b) I have learned what it's like to run a business from observing a parent, relative, or close friend who is, or was, self-employed.

❑ c) I have previously been involved in a small business as an employee with considerable responsibility.

2. Health and energy

Operating your own business is a big responsibility. Hard work, long hours, unexpected crises, customer/client demands, and the stress of financial uncertainty require tremendous stamina. Do you have the physical and psychological reserves needed to handle the ups and downs of self-employment?

❑ a) I have about as much energy as the next person.

❑ b) I have a lot of energy and drive and rarely get sick enough to take time off work.

❑ c) I seem to run out of energy sooner than other people do.

3. People skills

Even when you're your own boss, you will need to get along with all sorts of people—from lenders, partners and suppliers to employees, customers and clients. Would you be comfortable dealing with a cranky customer or a chronically absent employee? Are you willing to go to great lengths for a demanding client? Client service can be the crucial element that sets your business apart from your competitors. How are your people skills?

❑ a) I can get along with just about anyone.

❑ b) I tend to avoid "problem" people rather than deal with them.

❑ c) A lot of people get on my nerves and when they do I tend to lose my temper.

4. Openness to new ideas

Successful people keep an open mind. They seek information, advice and feedback wherever possible. When they don't know something,

© Government of Alberta, Human Resources and Employment

they're not afraid to admit it. They're always learning and welcome new information even if it conflicts with their beliefs.

❑ a) I don't like it when people try to give me advice.

❑ b) When I don't know something, I'm not afraid to ask questions and seek advice.

❑ c) I'll consider good advice if it's offered.

5. Self-confidence and optimism

Entrepreneurs believe in themselves and their ability to succeed at any project they undertake. They don't believe luck has anything to do with it. They are also optimistic. They can visualize success. These qualities are essential in order to overcome obstacles and avoid feeling defeated when things don't go according to plan.

❑ a) Going into business is worth a try. I've been pretty lucky so far.

❑ b) I believe in myself and am confident that I can succeed with anything I set my mind to.

❑ c) Bad luck is my middle name.

6. Independence

Entrepreneurs are independent thinkers, leaders rather than followers. They care little about what others think of them. They are able to sell themselves and motivate others, qualities that are very important in attracting lenders and investors, marketing products and services, and inspiring employees.

❑ a) I often worry about what others think of me.

❑ b) Sometimes I wonder what others think of me, but I don't worry too much about it.

❑ c) What others think of me never crosses my mind.

7. Perseverance

Successful entrepreneurs don't quit. They set short and long-term goals and do what is needed to reach them. As the saying goes: When the going gets tough, the tough get going. Do you have the determination and perseverance to succeed?

❑ a) I don't give up. I work on problems until they are solved.

❑ b) I am easily deterred when I run into obstacles.

❑ c) I usually finish what I start, especially if things go well.

8. Creativity and innovation

You've heard of the better mousetrap? Many a business has been launched by someone who found a better way to do something. Successful entrepreneurs are creative thinkers who are always coming up with new ideas and ways of doing things more efficiently. Where other people see problems, they're three steps ahead, devising solutions. As a business owner you will often be called upon to solve problems for your customers or clients. Are you an innovative thinker?

❑ a) I've had some good ideas in my time.

❑ b) When faced with a new problem or situation, I get frustrated and my mind usually goes blank.

❑ c) I enjoy tackling problems and can usually find more than one solution.

9. Initiative

Entrepreneurs are self-starters. When they see something that needs doing they don't wait for someone else to make the first move. And, when they have a good idea, they act on it.

❑ a) I like to make things happen.

❑ b) I'll throw myself into a good project if someone else suggests it.

❑ c) I usually don't take on new responsibilities unless I have to.

10. Decision-making style

❑ a) When making a major decision, I agonize over the alternatives and put it off as long as possible.

❑ b) When I have to make a decision, I examine the alternatives and select the best one, but I wonder afterwards if I made the right choice.

❑ c) I am comfortable making decisions once I have the necessary information and I carry them through with confidence in my own judgement.

11. Lifestyle and personal resources

Owning and operating a business is not only a work choice but a lifestyle choice. Your business will make both personal and financial demands on you and your family. Before taking the plunge into self-employment, you will need to discuss with them fully what it will mean in terms of family life

© Government of Alberta, Human Resources and Employment

and income. Do you have their support? Can your personal life withstand the stresses of self-employment?

- ❑ a) My family understands that I will be working long hours to launch my new business, that I won't be bringing home a regular paycheque, and that we may have to adjust our spending habits accordingly—but they're not sure they'll like these changes in our lifestyle.
- ❑ b) I haven't discussed with my family what effect my business will have on them.
- ❑ c) I have discussed with my family all the possible effects my business will have on our lifestyle and they support my plan.

12. Risk tolerance

Contrary to the popular stereotype, successful entrepreneurs are not gamblers. They set realistic business goals, gather as much information as possible, and then take moderate, controlled risks to achieve their goals.

- ❑ a) I will take moderate, calculated risks in order to help my business succeed.
- ❑ b) I'll take small risks where others hesitate.
- ❑ c) Even the smallest risk makes me nervous.

Answers

In this exercise there are no "right" answers. But there are three types of answers, each indicating a different degree of entrepreneurial readiness. Circle the answer you gave for each question on the answer chart below. If most of your answers fall in the "Ready" category, you are probably good entrepreneurial material. If most of your answers fall into the "Needs Work" category, you could try to improve in the areas where you fall short or find a partner with complementary assets. If you had more than five answers in the "Think Again" column, you should seriously consider whether you really want to go into business for yourself.

	Ready	Needs Work	Think Again
1.	c	b	a
2.	b	a	c
3.	a	b	c
4.	b	c	a
5.	b	a	c
6.	c	b	a
7.	a	c	b
8.	c	a	b
9.	a	b	c
10.	c	b	a
11.	c	a	b
12.	a	b	c

How did you do?

Take a minute now, on a separate sheet of paper, to list your entrepreneurial strengths and areas where you need improvement based on the self-assessment exercises in this section.

1. My entrepreneurial strengths are:

2. I need to work on my skills, attitudes and behaviours in these areas:

Now what are you going to do about it?

Congratulations on your entrepreneurial strengths. You probably discovered you have more than you thought you did. Now what are you going to do about the areas where you could use some improvement? If these have more to do with skills than with attitudes and beliefs, they will be easier to master. For example, you can take a course in marketing, but it will be more difficult to change a deep-seated tendency to panic in crisis situations. Many entrepreneurs take on partners or hire staff who have the skills they lack. What will you do?

For each of the areas where you need to improve, list what you can do to compensate.

Note: The exercises in this chapter are intended to serve only as indicators of your entrepreneurial skills and attitudes. No test can tell whether or not you will succeed in business for yourself. However, the more of these traits you possess, the better your chances are of succeeding in your own business.

© Government of Alberta, Human Resources and Employment

III. The Idea Factory

If you've come this far and still feel you're destined to become your own boss, the next step is to explore your self-employment options and decide what kind of business you want to go into.

Self-Employment: What are your options?

As the economy and the workplace change, the percentage of people who make their living from some form of self-employment is expected to increase significantly. There are many ways to be self-employed. Here are some of the alternatives:

1. **Entrepreneurship.** The traditional entrepreneur runs a business that sells a product or service and employs others. The business could be a franchise or it could be one started from scratch. This is the most risky form of self-employment because it usually requires a significant investment of money to get started. Also, there will be constant pressure to generate enough business to pay staff and overhead expenses. On the plus side, this form of entrepreneurship offers the most opportunity for growth and profit. The more employees you hire, the more goods or services you can sell and the more profit you can make. Examples: florist shop, interior decorating/home accessories business, computer sales and service, fast-food outlet.

2. **A One-person Enterprise.** In this type of business a person offers a product or service without employing others. Often it is run as a home-based business to keep overhead low. An estimated 10 per cent of Canadian households have businesses operating out of them. An alternative to the home is to rent office space in an incubator-style setting that offers the opportunity to share equipment and secretarial services or to pay for them as needed. Many businesses start as one-person, home-based enterprises and grow from there. Some notable examples: Mattel Inc., Apple Computers Inc. and the Walt Disney Company. But not everybody wants to be a corporate mogul. If you like the idea of being independent but don't want the responsibility of being an employer, this may be the type of self-employment for you. Examples: computer repair and servicing, bookkeeping, home care, pottery or other crafts, specialty foods.

3. **Consulting.** A consultant works on a variety of projects simultaneously, often for a number of different clients, and on separate premises from the client companies. For example, a graphic designer might be designing a brochure for one client, an annual report for another, and a web page for a third. This type of self-employment allows for great variety of work and clients. It also requires the organizational ability to juggle a number of projects with varying deadlines and to find time every day to market your service and expertise. Other examples: home renovators, landscape consultants, management consultants.

4. **Contracting.** Contracting involves taking on work within an organization for a set period of time. While contract work may be full-time for its duration, the contractor receives a set fee with no employee benefits. This option offers the opportunity to do a variety of work in a variety of settings in succession. But contractors can feel pressure to minimize the gaps between contracts. Also, if you work on the premises of a company and function essentially as a member of the staff, the Canada Revenue Agency may treat contract work as employment rather than self-employment for tax purposes.

5. **Brokering.** Brokers, or agents, earn their income by marketing other people's talents or products and taking a fee. The best known examples are literary, sports and talent agents, but a broker can be anyone who performs a useful service by linking people with expertise or products to people who need them.

6. **Talent pooling.** A talent pool is a group of self-employed people with different talents and related interests. Together they may possess all the skills required to win a particular contract that none of them could handle on their own. They may form a consortium and offer their services as a "virtual company," that is, a company that forms to carry out a project and disbands when the project is completed. This situation offers the independence of self-

© Government of Alberta, Human Resources and Employment

employment combined with the ability to compete and work on projects that no single small businessperson could handle alone. It also provides the support and stability of working as part of a team.

Three ways to get into business

If you have an innovative product or service to market, or if you plan to offer your services as a consultant, you will need to build your business "from scratch." Two other routes to entrepreneurship are to purchase an existing business or to become a franchisee. Before deciding which option is best for you, look at the pros and cons of each.

Buying a franchise

A franchise is a business operating system which is leased by an entrepreneur (franchisee) from the company which owns the system (franchisor). The franchisor usually builds or renovates the place of business, trains the franchisee, provides some advertising support and monitors the franchise operation to make sure the system's standards are being maintained.

Franchising is a booming trend in Canada, where approximately 1,800 franchise systems employ about 1 million people. The word "franchise" might make you think of fast food chains—Tim Hortons is a prominent example—but an increasing number of service businesses, from travel agencies and home cleaning enterprises to quick copy outlets and Internet cafés, are selling franchises. There's also a trend toward franchising knowledge-based businesses such as tutoring, accounting services and financial planning.

The big advantage of buying a franchise is that it's a ready-made business with a ready-made corporate identity and a proven concept. The product or service, manuals and training are all developed and ready to go. For some entrepreneurs, this can be seen as a disadvantage because it leaves little up to the discretion of the franchisee.

While buying a franchise is like buying a business-in-a-box, you still need to do your homework. For example, you will want to do your own market research. Is there a demand for this kind of product or service in your area? How many businesses of the same type are there in your market area? How close is the nearest franchise of the same system? Be sure to talk with other franchise owners in the same system. They are your best source of information.

Statistically, buying a franchise entails less risk than starting a new business from scratch. Ninety-two per cent of franchise operations survive after the first five years, compared with only 23 per cent of independent businesses. What are the problems that cause franchise failures? According to Richard B. Cunningham, president and CEO of the Canadian Franchise Association, the reasons vary. "It is usually because the franchisee is underfunded or poorly matched for the business, there is insufficient support from the franchisor, or in some cases the concept itself is not marketable." For example, an idea that works in one location might not fly in another.

When a franchise succeeds, Cunningham says, it is often because of the franchisee's creativity, sales and marketing expertise and commitment to the business.

Do your franchising homework

Here are a number of dos and don'ts to keep in mind when buying a franchise:

1. The single most important thing you can do before buying a franchise is to talk with several other franchise owners within the franchise system you are considering. They are your best source of information. Ask them what their experience has been with the franchisor. What do they feel are the benefits and disadvantages of their relationship with this particular franchisor?
2. Before signing a franchise agreement make sure it clearly spells out the rights and obligations of both the franchisor and franchisee (you). What kind of guidance and training will the franchisor provide? Will you be obliged to buy certain supplies from the franchisor? Will you have to make compulsory contributions to an advertising or marketing fund for the whole franchise system? If so, what kind of advertising are they doing in your market area?
3. Be sure to seek legal, financial and business advice before signing any franchise agreement. There are lawyers and accountants who have special expertise with franchise operations. Most large banks have franchise divisions.
4. Research the franchisor's track record. Franchisors are required to disclose key information to the Canadian Franchise Association (see Resources section for contact information) and to provincial governments. How many stores in the system closed in the past three years? How many changed hands? Why?

© Government of Alberta, Human Resources and Employment

Buying an existing business

Another way new entrepreneurs may reduce their risk is to purchase an existing business. This route allows you more autonomy than with a franchise system, and you can skip over the hard work and expense of start-up. However, it's not completely risk-free. You may find an established company for sale at an attractive price, but be sure to examine the owner's motives for selling. Are you satisfied with the reason, or could there be something unfavorable about the business that's not evident on the surface?

Some advantages of buying an existing business include:

- **Good location.** An existing successful business probably has a choice location. If you start a business from scratch you will have fewer unoccupied spots to choose from.
- **Ready-made facility.** Building and equipping a facility can be costly and time-consuming. When you buy an existing business, you can move right in.
- **Ready-made clientele.** A successful established business is likely to come with a loyal customer base and a mailing list for future marketing and promotion.
- **Personnel in place.** The business will come already staffed, so you don't have to recruit and train people for start-up.
- **Inventory in stock.** The previous owner would have inventory on hand and an ordering system in place.
- **Operating systems in place.** There will already be accounting, financial and record-keeping systems developed to ensure a smooth-running operation.
- **Established market share.** Competitors will fight hard to quash a new business before it can get on its feet. An existing business will already have carved out a share of the market.

On the flip side, some of the same advantages could be disadvantages. For example, you could be saddled with outdated inventory, bad location, or inefficient personnel. For some entrepreneurs, the advantages of a ready-made business might be offset by the lack of excitement and challenge involved in creating a business from scratch.

How do you find a business to buy? Some potential sources of information on businesses for sale include accountants, bankers, management consultants, newspapers, trade journals, and local chambers of commerce. You might also consider going through a business broker, but be mindful that the broker operates, like a real estate agent, on commission based on the selling price of the business. Once you've located a business that interests you, you may also consider hiring a business appraiser to help you determine if the asking price is right.

Starting from scratch

The most challenging—and potentially the most risky—way to be self-employed is to start a business from scratch. If you are planning to offer your services as a consultant working from your home or from a shared office, your start-up costs—and therefore your risk—will be minimal but not insignificant. If you want to start a business that requires a substantial investment in a facility and equipment, your risks increase. But you can greatly improve your chances of success with careful planning and by doing your homework.

The first step is to make yourself fully aware of what you're getting into, including the rewards and challenges of building your own business from scratch.

The perceived **rewards** will vary from one entrepreneur to another, but they include:

- **Gratification.** The satisfaction of creating a successful business is obviously rewarding.
- **Sense of adventure.** Many entrepreneurs—some would say true entrepreneurs—thrive on meeting and overcoming the challenges of start-up.
- **The chance to make your own mistakes.** When you build a business from the ground up you don't have to deal with mistakes made by those who came before you.

The **challenges**, of course, have to do with the trials and frustrations of start-up:

- **Risk of failure.** During the start-up process there are so many decisions to make—thus so many mistakes to make—that the risk of failure is high.
- **Competition.** It can be very difficult for a start-up business to capture market share from existing similar businesses.
- **Burnout.** Starting a new business is just plain hard work and frustrating to boot. It requires an

© Government of Alberta, Human Resources and Employment

incredible amount of time, energy and stamina to deal with bankers, acquire the necessary licenses and permits, hire and train employees, and establish market awareness. And those are only a few of the tasks of a start-up entrepreneur.

Whichever route you take—franchising, buying an existing business or starting from scratch—be sure it's a business that appeals to you, with a potential clientele you can relate to. For example, if you don't like being around animals, your chances of success with a pet shop are slim, no matter how attractive the business looks from a marketing perspective.

Where did they ever get that idea?

No doubt you've asked yourself that question when struck by the sheer genius of a new enterprise—whether it's selling Pet Rocks or a new software product that allows people with disabilities to use computers.

What makes that light bulb go on over an entrepreneur's head? Where do they get those ideas?

Meeting a need

The old cliché about necessity being the mother of invention has a lot to do with it. Many successful entrepreneurs can trace their start back to a problem that needed solving in their own or other people's lives. You know those situations where you're moved to ask: "Why don't they make X?" or "Why doesn't someone do Y?" where X and Y are nonexistent products or services that would come in handy or improve your life. The difference between entrepreneurs and most other people is that entrepreneurs don't just ask the questions. They go out and make it or do it themselves.

Why don't they . . . ?

Here's an exercise to test your idea-generating abilities. Carry a notebook around with you for a week and jot down your own needs and problems as they arise. Then on a separate sheet of paper list only those for which satisfactory solutions don't already exist. For each problem or need, try to think of products or services that could be the start of a new business.

- Problem or Need
- Potential New Products or Services

Following your passion

Many a business has grown out of a beloved hobby or other passion. Indeed, many would say that passion is a prerequisite for success in business or any other line of work. For example, Patrick and Adrienne Duffy, authors of *Pathway to Freedom*, say: "If you're going to put 100,000 hours into your career, it should be something you care passionately about. People have to remember they have a choice and when they are true to themselves in those choices, good things happen." Passion also can be the fuel that energizes you when you need to put in long hours to complete a project or attend to other aspects of your business.

A word of caution: just because you like doing or making something doesn't mean you'd enjoy the business of doing it or making it for others. A common case in point is the restaurant business. Many people who love good food and preparing good food for friends dream of owning their own restaurant. But being a good cook has nothing to do with running a successful restaurant. You can hire a cook, but can you manage staff, control food and labour costs, and order supplies on a large scale?

Spotting social and demographic trends

Some entrepreneurs have a knack for keen observation and sensing an opportunity when it presents itself. They follow demographics—the statistical study of specific features of the population as a whole, such as age—and observe social trends. Then they make logical predictions as to what kinds of products and services will be in demand in the future. Some can sense a developing trend before it hits locally and are able to catch the wave.

Economist and bestselling author David Foot made some far-reaching economic predictions by putting together two facts: 1) the baby boom generation is growing older, and 2) people tend to do and buy different things at different times in their lives. For example, research on drugs and therapies designed to reduce the effects of aging will be a growth industry as baby boomers age, according to Foot. In his book *Boom, Bust and Echo*, Foot also predicts that a smaller percentage of the population will be playing at strenuous sports and a growing percentage will be spending their leisure time on activities such as hiking, golfing, gardening, and travel.

© Government of Alberta, Human Resources and Employment

Time constraints on baby boomers and dual-income families will spur a huge increase in demand for personal services such as shopping and housecleaning. Also, information from Work-Life Compendium 2001 indicates 15 per cent of Canadian employees are in the sandwich generation, caring for both children and an older relative. In all of these cases people are looking for ways to solve the problem of too much to do in too little time.

Smart entrepreneurs are looking at such demographic and social trends and dreaming up products and services to capitalize on them.

Spot the business opportunity

The following trends have been identified by various futurists. What business opportunities do they suggest to you? List three opportunities after each trend.

1. **More diverse family and household types.** The definition of family has broadened beyond the traditional nuclear family to include a wide variety of family structures and smaller family units. This could have an impact on the type of housing, furniture and automobiles required in the future as well as the packaging of food products. What potential business opportunities could these be?

2. **The dominance of the dual income family.** More families are trying to balance the demands of two careers with growing children, household maintenance, and leisure activities. Their hurried lifestyle puts a premium on time, creating opportunities for many types of personal services. What products or services could this include?

3. **An aging population.** The average age of the Canadian population is increasing, largely due to the movement of the baby boom generation through its life cycle. As they age, boomers will have more leisure time and more discretionary income, free of the demands of tuition, loans and mortgages. What kinds of goods and services could you offer them?

4. **An increasingly health-conscious population.** People are becoming more knowledgeable about health issues and therefore more attentive to diet and exercise in their lives. How might you capitalize on this trend?

5. **Lifelong learning.** The speed of technological change and a rapidly increasing knowledge base mean lifelong learning will be the norm. As the workplace changes, people will seek opportunities to retrain and acquire new skills. What kinds of entrepreneurial opportunities can you identify in this trend?

© Government of Alberta, Human Resources and Employment

Building a better mousetrap

Many entrepreneurs get their start simply by improving on an existing product or service. A variation of this is leaving a job to start your own business because you know you can do it better than your boss. If you go the latter route, be careful not to burn bridges. With some diplomacy you can position yourself as a supplier rather than a competitor of your former employer.

Finding new uses for old things

Concern for the environment is continuing. That means there will likely be even more emphasis on the three R's of environmental protection: reduce, reuse, and recycle. Many new businesses are springing up to make new products out of recycled materials such as plastics and tires. Some companies are making money by harvesting logs that have remained at the bottom of rivers and lakes for years.

Combining two successful ideas

The first person to put a cappuccino bar in his or her laundromat or bookstore knew that two good ideas are better than one. They also won over clientele from the competition.

Replacing imports

Look around you and note where the products used in your community were made. Talk to local businesses and industries and find out what kinds of problems they have locating suppliers. Many who import goods and equipment would be delighted to be able to source them locally if the price was competitive.

Advice to inventors

Inventors are a special class of entrepreneur. For many, the process of creation is their true passion. Some may find they are ill-suited to the business of marketing, manufacturing and distributing the products of their invention. If you see yourself as an inventor, here are a few tips to keep in mind:

1. **License an invention rather than manufacture and market it yourself.** You may have enjoyed the inventing process and even building a prototype, but do you really want to be a manufacturer?
2. **Be patient.** It can take several years to get your product to market.
3. **Don't do it alone.** There are marketing consultants who specialize in assisting inventors of new products with prototype development, market research, and setting up licensing and royalty agreements.
4. **Take care with your licensing agreement.** Don't settle for just a royalty on each piece sold. Specify a minimum number of items to be manufactured each year and stipulate that you get paid whether the items sell or not.
5. **Try to get some money from potential partners up front.** It's important to have a real commitment, not just promises.

For information on patents, copyrights, trademarks, and other issues involved with protecting your intellectual property rights, contact:

Canadian Intellectual Property Office
Place du Portage I
50 Victoria Street, 2nd Floor, Room C-229
Gatineau, Quebec K1A 0C
Phone: (819) 997-1936
1-900-565-CIPO ($3 flat rate per call)
Fax: (819) 953-7620 (enquiries only)
E-mail: cipo.contact@ic.gc.ca
Website: www.cipo.gc.ca

© Government of Alberta, Human Resources and Employment

IV. Getting Started

So you've determined you're cut out to be your own boss, assessed your skills and skill deficits, and decided what kind of business you want to go into. What now?

This section is designed to make you aware of the major steps you'll need to take to get your enterprise safely off the ground. It is not by any means intended to be your only source of business start-up information. There's a wealth of excellent reference materials, government and industry agencies and programs, and other services available that provide in-depth, step-by-step information on how to start and operate a business. Many are listed in the Resources section of this book.

Doing a market analysis

Once you've decided what kind of business you'd like to operate, the next step is to decide if there's a real need for your product or service. Doing a proper market analysis can be costly and time-consuming. But it's more costly to set up a business only to discover there's not enough demand for your product or service to keep the business afloat.

These are some of the questions you need to answer:

1. Who exactly is your market? What are the market demographics? (i.e. age, income, education, sex, religion, hobbies, marital status, homeowners or renters, etc.)
2. Where is your market geographically?
3. What is the present size of this market?
4. What share of the market can you expect to gain?
5. Is this market growing?
6. Who is your competition?
7. How will you attract and keep your market?
8. What will you charge for your product or service?
9. What are your competitors charging?
10. If your price is higher, what's special about your product to justify the higher price?

To answer these questions, you can hire a market analysis company or you can do your own market research. Here are some sources you might consult in collecting market data:

- **Statistics Canada** — census data, demographic information
- **Your local or provincial chamber of commerce**
- **City hall** — information on business start-ups
- **Industry Canada** — the department's Strategis website contains a wealth of information for businesses
- **Yellow pages** — a quick way to assess the size of your competition and target market (if your potential clients are other businesses)
- **Professional and industry associations** — These organizations collect data on areas of interest to their membership. Check your public library for references called *Associations Canada* or the *National Trade & Professional Associations of the United States* for an association related to your area of interest.
- **Your potential clients or customers** — Interview a representative sample of your potential customers with questions designed to determine how receptive they would be to your proposed product or service. For example, if you were planning to start a housecleaning service you might ask whether they have ever used such a service in the past, whether they would consider using such a service in the future, and, if so, how often they might use such a service.

Financial considerations

Depending on the enterprise, a new business can take more than a year or two to start generating a full-time income, let alone profits. How will you deal with the start-up costs and financial requirements of your

© Government of Alberta, Human Resources and Employment

business and take care of your own living needs as well? Some people choose to keep their job or take a part-time job while building their business gradually. Perhaps you have some savings or a severance package to put into a new business. But, unless you're starting a consulting business from your home, you will probably have to borrow to supplement your savings. Many beginning entrepreneurs borrow from friends and family or find a silent partner to provide financial backing.

A number of federal and provincial government agencies provide loans to small businesses. Some provide services that match investors with businesses that need financing. See the Resources chapter for information on some of these agencies.

Home-based businesses

If you're planning to operate a consulting business from your home and already have some key contacts from your employment experience, you could be supporting yourself within months. Don't forget, however, that cash flow can be scarce at the start. Even if you have clients, you will need to complete work for them before you can bill them. Unlike an employment situation, where your paycheque arrives promptly at the end of each week or month, in the business world, clients often operate on a 30-day turnaround from the date of the invoice. Some take even longer to pay.

Ideally, you should have a financial cushion equal to at least six months' living expenses to tide you over until your cash flow becomes steady. Even when you achieve a steady income, you should keep a six-month financial reserve to cover you in an emergency or when work is thin.

In addition to having a financial cushion, you may need to equip your home office. Basics include phone with separate business line, fax (preferably with separate line), computer with Internet connection, and copier, plus comfortable furnishings. Purchasing equipment for a home office can cost anywhere from $5,000 to $10,000. Some of this equipment can be rented or leased.

Other costs to consider: business cards, supplies, brochures and other marketing materials (perhaps a website), professional and association memberships, and business licenses and permits, to name only a few. It is also wise to purchase disability insurance and add a business use rider to your home and car insurance policies. Depending on your business you may also need special liability insurance to cover you for errors and omissions. You will need legal services if you decide to incorporate and accounting services to help you set up your books and prepare your tax statements.

Other types of businesses

Retail, manufacturing and service businesses operated outside the home have many more costs to consider in addition to the above. They include, among others, the cost of:

- renting or building a facility
- hiring, training and paying staff
- renting or purchasing and maintaining equipment
- hiring legal, accounting and financial expertise
- purchasing supplies and raw materials
- advertising and marketing
- obtaining necessary licenses and permits
- meeting environmental standards and other regulations.

Keep your overhead low

Some ways to minimize financial problems and keep your overhead low during start-up:

1. Start your business in your home, if possible, and grow it from there.
2. Buy only the equipment and supplies you need to start.
3. Shop for bargains. Don't insist on going first class.
4. Don't carry too much inventory.
5. Practice "just-in-time" staffing. Hire people for specific projects only when you need them.
6. Consider a business "incubator" setting where new businesses can benefit from free or low-cost shared reception and secretarial services and equipment.
7. Try to make special arrangements with subcontractors and suppliers so that you won't have to pay them until your client pays. Ideally you would get your clients to agree to a 15-day turnaround on your invoices, then pay your suppliers on a 30-day turnaround.

© Government of Alberta, Human Resources and Employment

Licenses and permits

One of the more time-consuming steps in a business start-up is sorting through the maze of licenses, permits and registration requirements of municipal, provincial and federal governments. Don't leave this step until last. The sooner you start, the better. There's no hurrying bureaucracy. The following are only some of the licenses, permits and registrations you may need to attend to:

Local

- development permit (when operating a business out of your home or changing the use of your business space)
- building permit
- business license
- business tax assessment
- health approval (permit to make, sell or store food and drink)

Provincial

- registration of business name (establishes some credibility and qualifies you for a business account at a bank, but does not protect business name)
- incorporation (protects business name, limits liability and confers special tax status)
- provincial licenses, bonds, or trust accounts
- provincial income tax (if incorporated)
- liquor license
- Workers' Compensation Board (if you have employees)

Federal

- GST (Goods and Services Tax) — all businesses with gross revenue of more than $30,000 must register with the Canada Revenue Agency to collect and remit the GST.
- federal income tax — federal law requires that all employers collect and remit Canada Pension Plan contributions, Employment Insurance premiums and personal income tax to the Government of Canada. Contact your local Canada Revenue Agency office for an employer's kit.
- labelling — the federal government has regulations relating to labelling of various food, textile and other products. Check with Agriculture and Agri-Food Canada, and Industry Canada, Office of Consumer Affairs, for information.
- importing/exporting — contact the Canada Border Services Agency regarding permits or documents required.

Writing a business plan

Lack of proper planning is a major cause of business failure. Every business, no matter how small, needs a business plan. Basically, a business plan describes your product or service and how you intend to market it. It outlines how you plan to operate and finance your business. A business plan is absolutely essential to borrow start-up money from a commercial lender. Even if you don't need to borrow money to finance your enterprise, you should write a business plan. Here's why.

A business plan:

- clarifies your business idea
- helps you spot potential opportunities you might otherwise overlook
- provides a standard by which to measure your progress
- helps you anticipate change and adapt to it
- helps you identify potential weaknesses and correct them at the start
- helps you obtain financing, if needed.

Perhaps most important, putting your plan in writing, in great detail, tests your commitment. Is this what you want to do with your life at this time? Are you looking forward to the challenge?

There are numerous resources available to help you prepare your business plan, from books, computer software and Internet websites to not-for-profit business support agencies and professional business counsellors (see the Resources section). Be sure to look at examples of successful business plans before writing one on your own.

Typical business plans include:

1. **Executive summary.** Provide a one or two page overview describing your proposed business, product or service, and market, as well as your management team, projected costs, financial requirements, and financial forecasts.
2. **Company and industry**. Give the particulars of your business (name, address, date of registration, form of ownership, major shareholders, industry classification of your business) and describe the extent of your involvement in the business, progress to date, and prospects for the industry as a whole.

© Government of Alberta, Human Resources and Employment

3. **Product or service.** Describe your product or service (include photo or brochure, if possible), the research and development already undertaken and projected costs of research still needed, the features of your product or service that would give you competitive advantage, and your future development plans.

4. **Market.** Define your potential customers (who and where are they?), the estimated size of your market and expected market share, any relevant market trends, and your competitors (how does their product or service compare with yours?).

5. **Marketing Plan.** Explain how you will inform your customers about your product or service. What will you spend on advertising? What price will you charge? What level of sales do you require to break even? How will you distribute your product?

6. **Operations.** Explain how and where you will operate your business. What are the advantages of your location? What licenses, permits or insurance will you need? What materials and equipment will you need and what will they cost? Who are your suppliers and what are their terms? What staff will you need? What will be the cost of overhead? What will be the total cost of delivering your product or service?

7. **Management.** Explain how the business will be managed. If it will be a small business with you as the owner/operator, describe your experience and skills and include your résumé. Will you have partners? What role will they play? Include information on their background. If you're planning a larger type of business, describe your management team—their experience, skills and responsibilities. Attach their résumés. List your directors, if applicable, and the names of your lawyer, banker and accountant. Provide an organizational chart, if applicable.

8. **Timetable.** Provide estimated dates for each step (acquiring equipment, hiring staff, financing, etc.) required before you open for business.

9. **Financial information.** Give the total estimated cost of starting and operating your business, including a detailed breakdown. Where do you expect to obtain these funds? What investment are you bringing to the business? How much funding are you asking of the financial institution that is receiving your business plan? What future funding will you require?

10. **Financial forecast.** Provide a three-year financial forecast, including anticipated sales, earnings and retained earnings, cash flow and balance sheet statements. Depending on the type of business you are planning and your progress to date, your business plan will contain more or less detail than outlined above. The more detail the better.

Writing proposals

If you are planning to work as a contractor or consultant, you will need to know how to write proposals, because that's how you are likely to win a good portion of your work. Due to tight budgets and increased accountability in both government and the private sector, even small projects are now being put out to tender. Tendering is a process in which the client invites qualifying individuals or firms to submit proposals outlining how they would complete a particular project and what they would charge. Here are some tips on how to create a winning proposal:

Preliminary research. At the very start, get answers to the following questions:

- Who are the clients? — not only the client who will ultimately accept or reject the proposal, but also the others whose needs will be satisfied by the work under contract.
- What exactly is the task that needs to be done and for what purpose? Or, what problem is the client trying to solve and why is it a problem?
- What are the project timelines?
- What budget range does the client have in mind for the project?
  (The client may refuse to reveal this information.)
- Who is your competition?

Don't be afraid to ask questions. It helps to build a relationship with the client and they'll appreciate your interest.

Project research. Depending upon the type of project under tender you may need to do some research into how the client's particular task or kind of problem has been dealt with in the past by others. This information will also help you to explain how your approach is new or unique. Determine in detail your strategy for carrying out the project and the manpower, equipment and other resources that will be required. Draw up your budget.

© Government of Alberta, Human Resources and Employment

Drafting your proposal. Basically, a good proposal will have the following elements:

- **Title page** — including project title, date, client's name, your firm's name and address, a contact person (name and title), and phone and fax numbers.
- **Table of contents** — for anything longer than four pages.
- **Executive summary** — a brief summary (a page or less) highlighting the need for the project and the proposed solution.
- **Background or Introduction** — again a page or less identifying the task or problem and introducing your business as the right one to carry out the project. Demonstrate the knowledge and expertise you bring to the situation and suggest your approach in broad terms. Then introduce the proposal, which will explain your approach in detail.
- **Project goals or objectives** — a statement listing the expected outcomes of the project.
- **Method** — a brief description of how the goals will be achieved, outlining each step of the project in succession and explaining how each relates to the goals.
- **Project team** — a list of the people who will carry out the project, including the title and credentials of each.
- **Timelines** — a schedule listing each activity involved in the project in sequence and the specific time frame during which it will be carried out.
- **Budget** — a detailed list of costs for each step of the project. Be sure to include expenses such as project management services, travel, supplies, long distance telephone and courier costs. Once they have calculated actual costs, some consultants add 35 to 45 per cent to allow for overhead costs, such as space, utilities, reception and other office expenses. Once it is added in, this overhead item amounts to 28 to 33 per cent of the total budget. However, don't include an "overhead" line in your budget. Simply build the amount into the other items in the budget. Be sure to schedule payments at intervals throughout the term of the project—for example, at each stage—to cover the expense of carrying out the contract.

  Estimating costs and preparing quotes is a skill that improves with experience. You may be able to find out what others have charged for similar projects or what the fair market value of a project is through your professional network.

  If you get the contract, be sure to keep track of your actual expenses and the hours you spent on the project so you can improve your estimating skills for future proposals.
- **Appendices** — additional documentation that might include résumés of your project team, your client list, and your promotional material.

Your proposal should include a cover letter referring to the invitation to tender and briefly stating your keen interest in the project, a key attribute you bring to the project, a list of the materials enclosed, and your availability to answer any further questions.

Is it self-employment or employment?

When you do work on contract, it is important for tax purposes to clearly establish whether you are working as a self-employed individual or an employee. That's because working on a contract may or may not be considered self-employment in the eyes of the Canada Revenue Agency. Each case is judged individually. The main criterion is whether there is an employer/employee relationship. That is, if you are told how, when and where to do the contracted work, and work on client premises, it could be considered employment. If you have a large degree of autonomy in completing the work, it may be considered self-employment.

Spell it out

How do you negotiate a contract that will satisfy the Canada Revenue Agency that you are self-employed?

- Make sure the wording specifies that this is an independent contractor relationship and not an employer/employee relationship.
- Specify that you will not represent yourself as an "employee" of the company.
- State the date the work will begin and the date it will be completed (or the quantity of work to be performed), how much you will be paid, and when you will be paid.

© Government of Alberta, Human Resources and Employment

The dirty dozen: Watch out for these 12 pitfalls

Not every entrepreneur with a good idea makes it. If you look at starting a business as a journey, the idea is only the departure point. There are many potholes along the route. The entrepreneur who anticipates and plans for the pitfalls will have the best chance at success.

Here are some common reasons why a business might falter:

1. **Failure to understand the market.** If you don't know your potential customers and their needs, you can make mistakes in pricing, advertising or distribution. A thorough market analysis at the start is a must.
2. **Failure to plan adequately.** Careful planning is not only essential for getting a business off the ground but also for keeping it airborne. Once you're up there, where do you want to go? How will you "grow" your business? Where do you want to be in five years?
3. **Insufficient financing.** Here's where entrepreneurial optimism can get you in trouble. Underestimating expenses and overestimating revenue are common errors. Be sure to have an emergency fund for unforeseen difficulties.
4. **Mismanagement of finances.** Not providing for enough cash flow and carrying too much inventory can sink a business before sales start rolling in with some regularity.
5. **Growing too quickly.** How can too much success be bad? It's not uncommon for a new company with a good product or service to receive a sudden rush of orders that it can't handle or doesn't have the funds to purchase raw materials for. As a result, customers may be disappointed and never come back.
6. **Lack of commitment.** There's no halfway when you're in business. To make it succeed takes a tremendous amount of time and energy. If you don't have that kind of commitment, you can bet the competition does.
7. **Lack of attention to changing markets and business climate.** Change is the only constant in life. No matter how good you are at what you do or how good your product, you need to keep up with—no, keep ahead of—your market. What worked for you at the start of your enterprise is not an ironclad recipe for eternal success. Keep abreast of trends. Keep in touch with your customers and their needs and be prepared to change accordingly.
8. **Lack of experience.** This is a hard one to avoid—there's always a first time in business. You can prepare yourself by learning as much as you can from others who've gone before you.
9. **Underestimating the competition.** Some people approach business like a game of Monopoly—there will be winners and losers. Know who your competition is and don't expect mercy.
10. **Inability to find competent, reliable employees.** Finding, training and keeping competent, reliable employees is one of the biggest challenges of a business owner. In a recent survey of small and medium-sized Canadian businesses, 20 per cent put staffing at the top of their list of challenges. Train and treat staff well and let them know what you expect of them.
11. **Dishonesty.** It never pays.
12. **Insistence on going first class.** During the delicate start-up phase of a business, resist the temptation to surround yourself with the external trappings of success—expensive furniture, posh office, fancy car. You can't afford it. Look for bargains and buy second-hand where possible, but don't skimp on quality where it counts—that is, where your product or service is concerned.

Next steps

This book was designed to help you decide if you have what it takes to be your own boss. It also outlines the steps you'll need to take to get your enterprise off the ground. But it's only a beginning. Your next step? Roll up your sleeves and take action. Here are some suggestions to get you started:

1. **Explore.** Look around your community for business ideas, services and goods that are needed, businesses to emulate, and business owners who can serve as mentors.
2. **Talk to someone who has done it.** Ask entrepreneurs how they got started, what they like and dislike about their career, and what they would do differently.

© Government of Alberta, Human Resources and Employment

3. **Do your homework.** Read everything you can on how to start a business, what the marketplace is like in your area, what products or services are in demand and what trends are expected in the future. Seek out the appropriate agencies and resources listed in the next section for more information and counselling.
4. **Take a course.** Many government and community agencies and business organizations offer training programs for potential entrepreneurs.
5. **Research the advantages and disadvantages of various options:** starting from scratch, purchasing a franchise, purchasing an existing business. Decide which you will pursue.
6. **Identify the knowledge, experience and skills you need.** For example, organizational, time management or bookkeeping skills.
7. **Seek out business "incubator" programs in your community.** Your local Chamber of Commerce can usually direct you to them.
8. **Get professional advice.** Ask other entrepreneurs to refer you to lawyers, accountants and business consultants who can help you anticipate problems and work out solutions.
9. **Develop a business plan.** Absolutely essential! Outline in detail your business objectives, marketing strategy, operating procedures, organizational structure, cash flow projections and financial system.
10. **Start part-time and work from your home, if you can.** Let your business grow into a full-time endeavor.

"A lot of small business people get so caught up in work they don't take the time to develop procedures and expectations for their staff. But for us, that's the whole key to growth. I know my staff will make or break the business. That's why I prefer the role of 'coach,' as opposed to 'boss.' If your employees help plan the battle, they won't battle the plan." —a northern Alberta retailer

"Watch your overhead and don't be afraid to operate out of your home at first. A lot of businesses fail because people get caught up in glitzy offices and luxuries they don't need."
—an Alberta inventor running a successful company

Top ten tips

To prepare this guide we talked with self-employed people of all ages in a wide range of enterprises. We asked them the secrets of their success and what advice they'd give a person just embarking on a new enterprise. Here are their top ten tips:

1. Focus on one angle—the best service, friendliest staff, best price—something you can become known for.
2. Find people who run successful businesses and learn from them. Use them as mentors.
3. Surround yourself with good, capable people.
4. Know the industry you're getting into. Get hands-on experience.
5. Even if you don't have competitors, pretend that you do. Your business will run more effectively that way.
6. Set long-term and short-term goals. You need a vision for the long term, but you also need to achieve short-term goals to feel you're making progress.
7. Plan well and go slowly.
8. Keep an open mind and keep learning.
9. Keep your overhead down.
10. Don't pursue anything unless you are 100 per cent dedicated to following through with it.

"I'm a great believer in luck and I find the harder I work, the more I have of it." —Thomas Jefferson

© Government of Alberta, Human Resources and Employment

V. Resources

Never has there been so much information available in so many forms from so many sources for new entrepreneurs. The following is only a sample of the resources you can tap to help you get started. Each one will lead you to others.

If you have an Internet connection, there's a wealth of information on entrepreneurship and running a small business available at your fingertips, from self-assessment tests to determine whether you're cut out to be your own boss to detailed instructions on how to prepare a business plan. Search for words such as "entrepreneurship," "self-employment," "starting a small business," "SOHO" (Small Office Home Office) and follow the links. For Canada-specific information, include Canada in your search question, or go directly to the websites of the Canadian and provincial governments and follow the links to the departments responsible for economic development or small business development.

Government, private sector and community resources

Aboriginal Business Canada
Provides business services and support to Indian, Inuit and Métis people.

Website: **www.abc-eac.ic.gc.ca**

Agriculture Financial Services Corporation
This provincial Crown corporation offers a wide variety of assistance for companies with a rural or agri-business focus.

Phone: 1-800-396-0215
Website: **www.afsc.ca**

Alberta Human Resources and Employment
The department has a provincewide network of service centres that offer career planning and skill development services including counselling, workshops and skills development programs. The Labour Market Information Centres offer an extensive library of books, magazines, software and audiovisual materials to help people make informed career choices. This includes information on labour market trends, entrepreneurship, industry profiles, and human resources and training information for employers. Contact a centre near you or call:

Alberta Career Information Hotline
1-800-661-3753 in Alberta
(780) 422-4266 in Edmonton
Deaf and hard of hearing individuals:
422-5283 for TDD service in Edmonton
1-800-232-7215 message relay service in Alberta
E-mail: hotline@alis.gov.ab.ca
Website: **www.alis.gov.ab.ca/hotline**
Hours: 8:15 to 5:30 Monday to Thursday
8:15 to 4:30 Friday

Alberta Women's Enterprise Initiative Association (AWEIA)
This federally funded project operates within The Business Link (see Canadian Business Service Centres) and specializes in business support and financing for women. AWEIA holds information sessions on entrepreneurial readiness, business plan development and market research regularly in Edmonton and Calgary and at scheduled times throughout Alberta.

Phone: 1-800-713-3558
Edmonton: (780) 422-7784
Calgary: (403) 777-4250
E-mail: info@aweia.ab.ca
Website: **www.aweia.ab.ca**

Associations
Professional and industry associations can be sources of valuable information and assistance. Check the yellow pages under "Associations" for those that

© Government of Alberta, Human Resources and Employment

relate to your business interests. Also consult your public library's reference department for directories of national and international associations.

Business Development Bank of Canada (BDC)
This federal Crown corporation provides specialized financing for commercially viable business projects plus a wide range of business counselling, training and mentoring services in a one-stop approach to management and financial services. BDC has a series of business planning packages and do-it-yourself kits.

Calgary	Phone: (403) 292-5600
Edmonton	Phone: (780) 495-2277
Grande Prairie	Phone: (780) 532-8875
Lethbridge	Phone: (403) 382-3182
Red Deer	Phone: (403) 340-4255

E-mail: info-bdc@bdc.ca
Website: **www.bdc.ca**

Canadian Business Service Centres
These one-stop service centres, operated jointly by Canadian federal, provincial and local governments, offer a wide range of resources for entrepreneurs and small and medium-sized businesses. Services include confidential advisory services, referrals to government, association and private sector specialists, market and regulatory information, reference materials, seminars, and information on financing and government programs for business. They also offer access to various electronic databases. One example is electronic tendering information for businesses interested in selling their products and services to government.

There is a Canadian Business Service Centre in a major city in every province. Canadian Business Service Centres in Alberta are:

Edmonton
The Business Link
Suite 100, Revillon Building
10237–104 Street
Edmonton, Alberta
T5J 1B1
Phone: (780) 422-7722 in Edmonton
or 1-800-272-9675 toll-free in Canada
Fax: (780) 422-0055
E-mail: buslink@cbsc.ic.gc.ca
Website: **www.cbsc.org/alberta**

Calgary
Calgary Business Information Centre
#250, 639–5 Avenue SW
Calgary, Alberta
T2P 2M5
Phone: (403) 221-7800
Fax: (403) 221-7817
E-mail: contact@calgary-smallbusiness.com
Website: **www.calgary-smallbusiness.com**

Canadian Franchise Association
The association offers an *Investigate Before Investing* information kit, which includes a copy of *The Pros and Cons of Franchising in Canada*, published by Self-Counsel Press.

Canadian Franchise Association
2585 Skymark Avenue, Suite 300
Mississauga, Ontario
L4W 4L5
Phone: (905) 625-2896 or 1-800-665-4232
E-mail: info@cfa.ca
Website: **www.cfa.ca**

Canadian Youth Business Foundation
This not-for-profit, private-sector initiative is designed to provide mentoring, start-up financing and learning resources to young Canadian entrepreneurs who are creating new businesses.

Western Canada Regional Office
833–4 Avenue SW, Suite 1010
Calgary, Alberta
T2P 3T5
Phone: (403) 265-3228
Fax: (403) 265-2543
E-mail: info@cybf.ca
Website: **www.cybf.ca**

Chambers of Commerce
Local chambers of commerce have resource libraries, business guides, newsletters and event programs that could be valuable sources of information for new entrepreneurs.

Community Futures Development Corporations
Community Futures is a community development program designed to encourage economic activity and entrepreneurship in rural Canada. The program offers strategic planning, counselling and loans of up to $75,000 for small and medium-sized businesses and entrepreneurs. Participants receive assistance with everything from market research to creating a business plan and setting up an accounting system. Some operate resource centres and business

© Government of Alberta, Human Resources and Employment

incubators, some have programs and incubators specifically geared to young entrepreneurs. For information on a Community Futures program near you in Alberta, contact:

Western Economic Diversification Canada
Phone: (780) 495-4164 in Edmonton
or 1-888-338-9378 toll-free
Website: **www.wd.gc.ca**

Educational institutions
Universities, colleges and other educational institutions offer credit and non-credit courses on starting your own business as well as courses in marketing, bookkeeping, and other business topics. In addition, some have venture development programs that provide assistance to businesses in exchange for practical experience for students.

Financial institutions
The Canadian Bankers Association (CBA) and many of Canada's banks, trust companies and credit unions offer valuable resources for small businesses. These include booklets, seminars, videos and CD-ROMs on most aspects of starting and operating a small business as well as software for creating a business plan. Contact individual financial institutions or contact:

General Banking Inquiries
Phone: 1-800-263-0231
E-mail: inform@cba.ca
Website: **www.cba.ca**

Government of Alberta
Call Service Alberta toll-free at 310-0000 (anywhere in Alberta) for general inquiries on Alberta Government programs and services. Phone lines are open from 8 a.m. to 6 p.m. (Monday to Friday); voice mail is available after hours. Outside of Alberta, call long distance at (780) 427-2711.

Deaf or hard of hearing callers with TTY equipment call (780) 427-9999 in Edmonton or 1-800-232-7215 toll-free from other Alberta locations.
Website: **www.gov.ab.ca**

Investment Matching Service of Alberta (IMSA)
website, operated by Alberta Economic Development. IMSA's website contains a listing of business opportunities registered with the service by industry. Users can request profiles of companies seeking investors or register as a business seeking assistance.

Website: **www.alberta-canada.com**

Mennonite Centre for Newcomers
The centre's Small Business Coaching Program offers free small business coaching, consulting and workshops to assist immigrants and lower income Canadians with business start-up or expansion. The Jump Start program offers business loans up to $25,000 to entrepreneurs 18 to 29 years old.

Phone: (780) 424-7709
E-mail: mcnedm@emcn.ab.ca
Website: **www.emcn.ab.ca**

Public libraries
Your local library is an excellent place to browse through the wide range of books and magazines on all aspects of entrepreneurship and self-employment. Its reference section has directories and lists of trade and professional associations that you can contact for detailed information in your area of interest. Many libraries also have computers with Internet access available for your use.

Starting Your Own Business: Information for Young Canadians
This web page is a guide to information sources and websites offering young people helpful information on starting a small business. These sources provide a wide range of information on business start-up issues, financing, business plan development, mentoring, and a host of other topics. This web page was prepared and is maintained for young people under the auspices of the Forum of Labour Market Ministers (FLMM) of Canada.

Website: **www.alis.gov.ab.ca/employment/se/ye.htm**

Statistics Canada
Statistics Canada gathers and disseminates a wide range of demographic information that would be useful to a potential entrepreneur conducting a market analysis. Some of the information is available without charge, but be prepared to pay for detailed

© Government of Alberta, Human Resources and Employment

data. Contact your nearest Statistics Canada regional office for information.

Phone: 1-800-263-1136 toll-free
E-mail: infostats@statcan.ca
Website: **www.statcan.ca**

Strategis, Canada's largest business website, is operated by Industry Canada. Information categories include markets, trade and investment; industrial perspectives; technology and innovation; microeconomic research and analysis; managing your business; and marketplace services.

Website: **www.strategis.gc.ca**

The Alberta Business Advantage website, operated by Alberta Economic Development. This site has a reading room where you can download a free set of the department's small business guides, plus a link to all Alberta government services.

Website: **www.albertafirst.com**

Western Economic Diversification Canada (WD)
WD works with financial institutions to create specialized investment funds that serve as new sources of capital for small and medium-sized businesses. These are available in a number of sectors that are seen as important to Western Canada, such as tourism, health, agricultural biotechnology, agriculture value-added, knowledge-based industry, environmental technology, information technology and telecommunications. The funds are provided on commercial terms by the financial institutions. As well, WD provides assistance with business plans needed to access the funds. It also offers advice on exporting and other business services.

Other WD programs include Community Futures Development Corporations, Canada Business Service Centres and Alberta Women's Enterprise Initiative Association (listed under their own headings).

Edmonton: (780) 495-4164
Calgary: (403) 292-5458
Toll-free: 1-888-338-9378 (Western Canada)
Website: **www.wd.gc.ca**

Publications

Starting a Small Business
Staring a Home-Based Business
Marketing for Small Business
Managing a Small Business
Recordkeeping for Small Business
Financial Planning for Small Business

This Small Business Series is published by Alberta Economic Development and is available from:

The Business LInk (Edmonton)
Phone: (780) 422-7722 in Edmonton
or 1-800-272-9675 toll-free in Canada
and
Calgary Business Information Centre
Phone: (403) 221-7800

The small business guides can also be downloaded free from The Alberta Business Advantage website at www.albertafirst.com

© Government of Alberta, Human Resources and Employment

We'd like to hear from you . . .

Did you find the information in this publications useful?

_____

_____

_____

_____

In what way?

_____

_____

_____

_____

How could we improve it?

_____

_____

_____

_____

Do you wish to receive a catalogue of our products?

Name: _____

Organization: _____

Address: _____

City: _____ Province: _____

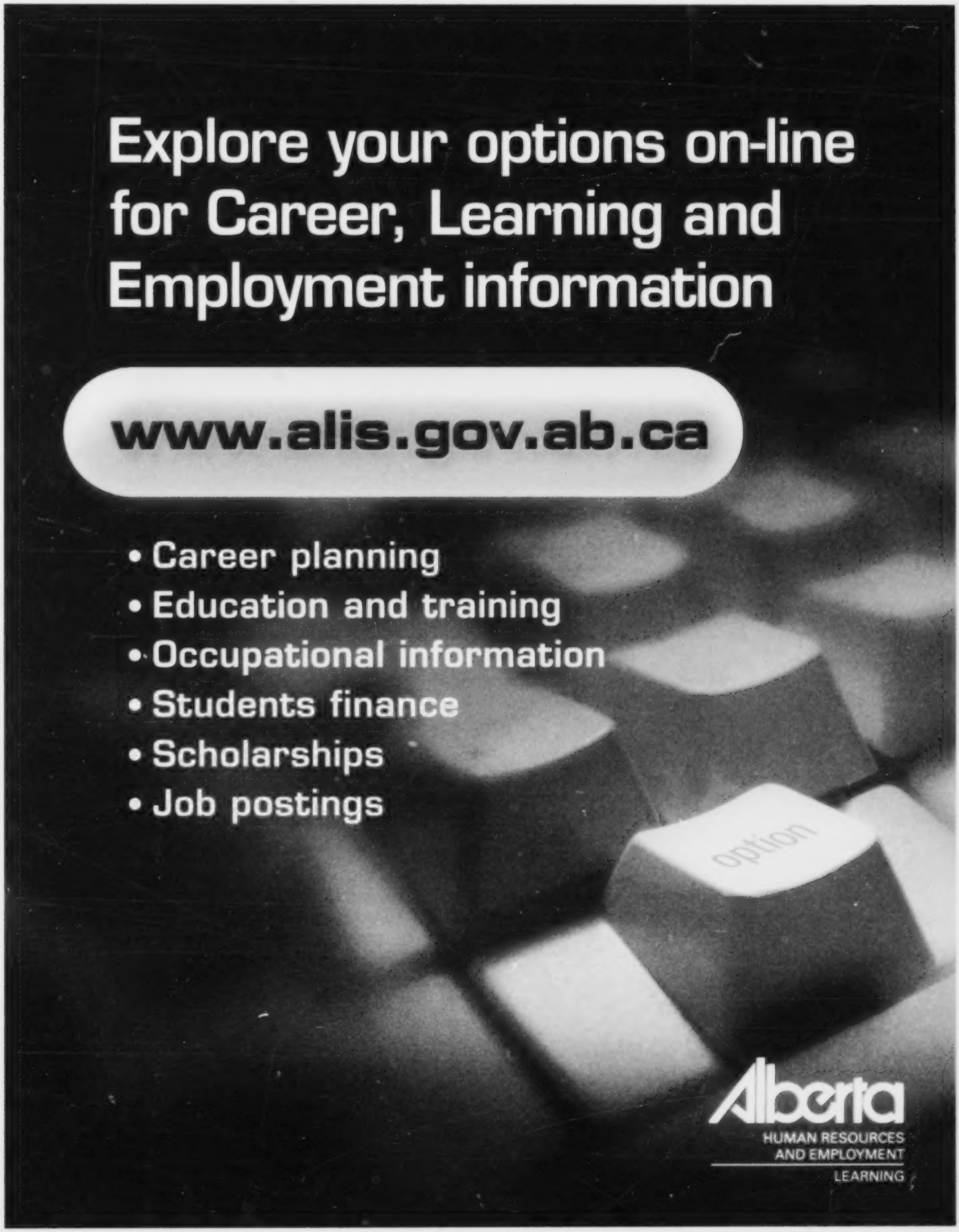
Postal Code: _____

Phone: _____

Fax: _____

Please return this form to:
People, Skills and Workplace Resources
Alberta Human Resources and Employment
12th floor, Seventh Street Plaza
South Tower, 10030–107 Street
Edmonton, AB T5J 3E4
Fax: (780) 422-5319

© Government of Alberta, Human Resources and Employment


Explore your options on-line
for Career, Learning and
Employment information
www.alis.gov.ab.ca
• Career planning
• Education and training
• Occupational information
• Students finance
• Scholarships
• Job postings
option
Alberta
HUMAN RESOURCES
AND EMPLOYMENT
LEARNING